LOCAL FINANCIAL CORP /NV
Form 10-Q
August 07, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission File Number:
001-13949

LOCAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	65-0424192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3601 N.W. 63RD, OKLAHOMA CITY, OK	73116
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (405) 841-2298

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Number of shares outstanding of the registrant's $0.01 par value common stock as of August 1, 2001 were as follows:

NUMBER OF SHARES

20,539,209

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LOCAL FINANCIAL CORPORATION
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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LOCAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)

	June 30, 2001 (unaudited)	Decem
ASSETS		
Cash and due from banks	$ 38,536	
Interest bearing deposits with other banks	26,200	
Securities available for sale	513,091	3
Loans receivable, net of allowance for loan losses of $27,680 at June 30, 2001 and $28,345 at December 31, 2000	1,871,352	1,8
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock, at cost	28,785	
Premises and equipment, net	37,980	
Assets acquired through foreclosure and repossession, net	1,014	
Intangible assets, net	16,218	
Current and deferred taxes, net	6,712	

Other assets	51,460	
Total assets	$ 2,591,348	2,3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$ 623,076	6
Savings	66,735	
Time	1,102,747	1,2
Total deposits	1,792,558	1,9
Advances from the Federal Home Loan Bank of Topeka	500,026	1
Securities sold under agreements to repurchase and other borrowings	66,207	
Senior notes	41,010	
Other liabilities	19,809	
Total liabilities	2,419,610	2,2
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 25,000,000 shares authorized; 20,539,269 shares issued and 20,539,209 shares outstanding at June 30, 2001 and 20,537,269 shares issued and 20,537,209 shares outstanding at December 31, 2000	205	
Preferred stock, $0.01 par value, 5,000,000 shares authorized; none outstanding	--	
Additional paid-in capital	206,777	2
Retained earnings	109,826	
Treasury stock, 60 shares, at cost	(151,274)	(1
Accumulated other comprehensive income	6,204	
Total stockholders' equity	171,738	1
Total liabilities and stockholders' equity	$ 2,591,348	2,3

The accompanying notes are an integral part of these consolidated financial statements.

LOCAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)

	Three Months Ended	Six Mon

	June 30,		Jun
	2001	2000	2001
		(unaudited)	
Interest and dividend income:			
Loans	$ 38,003	37,490	77,314
Securities available for sale	9,071	7,199	17,236
Federal Home Loan Bank of Topeka and Federal Reserve Bank stock	499	326	916
Other investments	376	511	1,374
Total interest and dividend income	47,949	45,526	96,840
Interest expense:			
Deposit accounts	19,461	21,468	41,878
Advances from the Federal Home Loan Bank of Topeka	5,435	3,581	9,565
Securities sold under agreements to repurchase and other borrowings	530	190	1,016
Notes payable	1,212	1,275	2,425
Total interest expense	26,638	26,514	54,884
Net interest and dividend income	21,311	19,012	41,956
Provision for loan losses	(1,150)	(500)	(1,900)
Net interest and dividend income after provision for loan losses	20,161	18,512	40,056
Noninterest income:			
Deposit related income	3,805	3,610	6,922
Loan fees and loan service charges	674	430	1,179
Net gains on sale of assets	201	147	306
Other	841	495	1,715
Total noninterest income	5,521	4,682	10,122
Noninterest expense:			
Compensation and employee benefits	8,630	7,869	16,452
Deposit insurance premiums	90	95	180
Equipment and data processing	1,615	1,881	3,239
Occupancy	921	884	1,891
Advertising	86	144	189
Professional fees	253	177	664
Other	3,563	2,719	6,993
Total noninterest expense	15,158	13,769	29,608
Income before income taxes and extraordinary item	10,524	9,425	20,570
Provision for income taxes	3,472	3,405	6,743
Income before extraordinary item	7,052	6,020	13,827
Extraordinary item - purchase and retirement of			

senior notes, net of tax	(1)	-	(4)
Net income	$ 7,051	6,020	13,823
Earnings per share:			
Income before extraordinary item:			
Basic	$ .34	.29	.67
Diluted	$ .33	.29	.65
Net income:			
Basic	$ .34	.29	.67
Diluted	$ .33	.29	.65
Average shares outstanding:			
Basic	20,539,209	20,537,209	20,539,032
Diluted	21,226,583	20,537,209	21,181,118

The accompanying notes are an integral part of these consolidated financial statements.

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LOCAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Six Months Ended June 30,	
	2001	2000
	(unaudited)	
CASH PROVIDED (ABSORBED) BY OPERATING ACTIVITIES:		
Net income	$ 13,823	11,12
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for loan losses	1,900	1,00
Deferred income tax expense	(665)	1,57
Accretion of discount on loans and securities available for sale, net	(1,176)	(1,07
Depreciation and amortization	2,323	2,05
Net change in loans held for sale	(4,317)	5,54
Net gains on sale of assets	(306)	(31
Change in other assets	(3,333)	24
Change in other liabilities	(670)	(5,45

Net cash provided by operating activities	7,579	14,71
CASH PROVIDED (ABSORBED) BY INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	--	150,48
Proceeds from principal collections on securities available for sale	91,615	32,16
Purchases of securities available for sale	(246,008)	(68,81
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	(9,368)	(4,80
Proceeds from the sale of Federal Home Loan Bank and Federal Reserve Bank stock	--	12,03
Change in loans receivable, net	(20,666)	(125,48
Proceeds from disposal of assets acquired through foreclosure and repossession	1,087	90
Purchases of premises and equipment	(2,145)	(7,38
Proceeds from sales of premises and equipment	46	1
Net cash (absorbed) by investing activities	(185,439)	(10,89
CASH PROVIDED (ABSORBED) BY FINANCING ACTIVITIES:		
Change in transaction accounts	20,152	20,87
Change in time deposits	(159,387)	(1,24
Change in securities sold under agreements to repurchase and other borrowings	27,993	20,13
Proceeds from advances from the Federal Home Loan Bank	813,113	982,15
Repayments of advances from the Federal Home Loan Bank	(503,115)	(1,008,02
Proceeds from the issuance of common stock	19	-
Purchase of senior notes	(150)	(32,09
Net cash provided (absorbed) by financing activities	198,625	(18,19
Net change in cash and cash equivalents	20,765	(14,37
Cash and cash equivalents at beginning of period	43,971	55,82
Cash and cash equivalents at end of period	$ 64,736	41,44
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 54,068	54,57
Income taxes	$ 6,162	4,83
Supplemental schedule of noncash investing and financing activities:		
Transfers of loans to assets acquired through foreclosure and repossession	$ 1,220	60

The accompanying notes are an integral part of these consolidated financial statements.

LOCAL FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2001 and December 31, 2000

(1) BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. All adjustments (consisting of only normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of the interim financial statements have been included. The interim financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes included in Local Financial Corporation (the "Company") Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission.

(2) LOANS RECEIVABLE

Loans receivable are summarized below at amortized cost (dollars in thousands):

	June 30, 2001	December 31, 2000
Residential real estate loans	$ 231,348	250,487
Commercial	1,485,756	1,425,382
Held for sale	1,605	5,922
Consumer loans	180,323	195,430
Total loans	1,899,032	1,877,221
Less:		
Allowance for loan losses	(27,680)	(28,345)
Loans receivable, net	$ 1,871,352	1,848,876

(3) ADVANCES FROM THE FEDERAL HOME LOAN BANK OF TOPEKA ("FHLB")

Advances from the FHLB are summarized as follows (dollars in thousands):

June 30, 2001	December 31, 2000

	Balance	Weighted Average Contractual Rate	Balance	Weighte Average Contractual
Fixed rate	$ 500,026	4.30%	$ 190,028	6.

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Although no specific assets are pledged, the FHLB requires the Company to hold eligible assets with a lending value, as defined, at least equal to FHLB advances, which can include such items as first and second residential and commercial mortgage loans and investment securities which are not already pledged or encumbered.

Scheduled principal repayments to the FHLB at June 30, 2001 are as follows (dollars in thousands):

	Amount	Weighted Average Contractual Rate
Year Ending December 31, 2005 and thereafter	$ 500,026	4.30%

(4) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER BORROWINGS

The Company had $14.0 million in term fed funds and $52.2 million in securities sold under agreements to repurchase at June 30, 2001.

Securities sold under agreements to repurchase are summarized as follows (dollars in thousands):

	June 30, 2001	December 31, 2000
Average outstanding balance	$41,330	18,352
Weighted average interest rate during the period	4.49%	5.85
Maximum month-end balance	$53,622	38,214
Outstanding balance at end of the period	52,207	38,214
Mortgage-backed securities securing the agreements at period-end:		
Carrying value	$60,413	42,053
Estimated market value	60,413	42,053
Accrued interest payable at the end of the period	2	--

The Company routinely provides securities sold under agreements to repurchase to customers as a part of the commercial banking operations.

(5) COMPREHENSIVE INCOME

Comprehensive income for the periods ended June 30, 2001 and 2000 consists of (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net income	$ 7,051	6,020	13,823	11,129
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities, net of reclassification adjustment	(172)	(126)	1,625	(2,047)
Comprehensive income	$ 6,879	5,894	15,448	9,082

(6) NET INCOME PER SHARE

Stock options and warrants to purchase 2,674,005 and 2,290,005 shares of common stock were outstanding as of June 30, 2001 and 2000, respectively. The stock options and warrants were included in the computation of diluted net income per share for 2001, but were not included in 2000 because they were antidilutive.

(7) SENIOR NOTES

During the six months ended June 30, 2001 and 2000, the Company purchased and retired approximately $150,000 and $32.1 million, respectively, of senior notes which had been issued in connection with the Company's recapitalization in 1997. As a result, there is an extraordinary item charge to income amounting to $4,000 and $871,000, respectively, net of tax.

(8) SEGMENTS

The Company operates as one segment. The operating information used by the Company's chief operating decision-maker for purposes of assessing performance and making operating decisions about the Company is the consolidated financial statements presented herein. The Company has one active operating subsidiary, namely, Local Oklahoma Bank, National Association, a national banking association (the "Bank"). The Bank, in turn, has one active operating subsidiary, Local Securities Corporation ("Local Securities"), which is a registered broker-dealer under the Securities Exchange Act of 1934 and provides retail investment products to customers of the Bank. While Local Securities qualifies as a separate operating segment, it is not considered material to the consolidated financial statements for the purposes of making operating decisions and does not meet the 10% threshold for disclosure under Statement of Financial Accounting Standards ("SFAS") No. 131, Disclosure About Segments of an Enterprise and Related Information.

(9) NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that a company recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. This statement was adopted by the Company in 2001 as set forth in SFAS 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133. Management has determined this statement did not have an impact on the consolidated financial position or the results of operations of the Company upon implementation on January 1, 2001.

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for

impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of $15.5 million which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $1.3 million and $670,000 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle; however, management does not anticipate an impairment loss at January 1, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

In this Form 10-Q, the Company, when discussing the future, may use words like "anticipate", "believe", "estimate", "expect", "intend", "should" and similar expressions, or the negative thereof. These words represent forward-looking statements. In addition, any analysis of the adequacy of the allowance for loan losses or the interest rate sensitivity of the Bank's assets and liabilities represent attempts to predict future events and circumstances and also represent forward-looking statements.

Many factors could cause future results to differ from what is anticipated in the forward-looking statements. For example, future financial results could be affected by (i) deterioration in local, regional, national or global economic conditions which could cause an increase in loan delinquencies or a decrease in collateral values; (ii) changes in market interest rates or changes in the speed at which market interest rates change; (iii) changes in laws and regulations affecting the financial service industry; (iv) changes in competition and (v) changes in consumer preferences.

Please do not place unjustified or excessive reliance on any forward-looking statements. They speak only as of the date made and are not guarantees, promises or assurances of what will happen in the future. Various factors, including those described above and those described in the Company's Form 10-K for the year ended December 31, 2000, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to be materially different from what has been anticipated or projected.

CHANGES IN FINANCIAL CONDITION FROM DECEMBER 31, 2000 TO JUNE 30, 2001

During the six months ended June 30, 2001, total assets increased $214.3 million or 9.02%. The $214.3 million increase was due primarily to commercial loan growth as well as increases in the Company's investment portfolio where the Company took proactive measures to lock in higher yields in a declining rate environment. Commercial loan balances during the six months ended June 30, 2001 rose $60.4 million or 4.24%. Securities available for sale and Federal Home Loan Bank and Federal Reserve Bank stock rose by $159.0 million or 44.92% and $9.4 million or 48.25%, respectively.

Total liabilities increased $198.9 million or 8.96% for the six months ended June 30, 2001 primarily due to an increase in FHLB advances and securities sold under agreements to repurchase offset by a decrease in time deposits. During the period, the Company took advantage of market-driven opportunities for lower cost borrowings at the FHLB resulting in an increase in advances from FHLB of $310.0 million or 163.13%. This offset a $159.4 million or 12.63% decrease in time deposits as some public and brokered deposits matured and were not renewed. Securities sold under agreements to repurchase and other borrowings increased by $28.0 million or 73.25% and consisted of commercial customer sweep accounts and term fed funds.

Total stockholders' equity increased $15.5 million during the six months ended June 30, 2001 which represented net income during the period of $13.8 million and a $1.6 million increase in unrealized gains on securities net of tax.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000 AND THE THREE MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000

Net Income. The Company reported income before extraordinary item of $13.8 million or $.67 basic earnings per share for the six months ended June 30, 2001 (based on 20.5 million average shares outstanding), compared to income before extraordinary item of $12.0 million or $.58 basic earnings per

share (based on 20.5 million average shares outstanding) for the six months ended June 30, 2000. Income before extraordinary item rose to $7.1 million or $.34 basic earnings per share for the three months ended June 30, 2001 (based on 20.5 million average shares outstanding) from $6.0 million or $.29 basic earnings per share for the three months ended June 30, 2000 (based on 20.5 million average shares outstanding). The extraordinary item charge to income in the six months ended June 30, 2001 was a result of the Company's purchase and retirement of $150,000 of senior notes during the period. The extraordinary item charge to income amounting to $871,000, net of tax, occurred in the first quarter of 2000 as a result of the Company's purchase and retirement of $32.1 million of senior notes.

Net Interest and Dividend Income. Net interest and dividend income totaled $42.0 million in the six months ended June 30, 2001 as compared to $38.1 million during the same period in the prior year. Net interest and dividend income in the three-month comparative periods ended June 30, 2001 totaled $21.3 million and $19.0 million, respectively. In both comparative periods, the Company saw increasing spreads and net interest margins due primarily to commercial loan origination volume, increasing yields in the security portfolio and favorable yields on FHLB advances.

Interest Income. Total interest and dividend income increased by $5.5 million or 6.04% during the six months ended June 30, 2001 as compared to the same period in the prior year and rose by $2.4 million or 5.32% during the three months ended June 30, 2001 compared to the same period in the prior year. The increase in interest income during the six-month comparative period was due primarily to growth in the Bank's commercial loan portfolio where balances rose from $1.313 billion at June 30, 2000 to $1.486 billion at June 30, 2001. The increase in interest income during the three-month comparative period ended June 30, 2001 was a result of increases in the Company's security portfolio.

Interest Expense. Total interest expense increased $1.6 million or 3.02% in the six months ended June 30, 2001 as compared to the same period in the prior year. Total interest expense increased $124,000 or .47% during the three months ended June 30, 2001 as compared to the same period in the prior year. The increases in interest expense during both the six and three-month comparative periods were primarily the result of increased borrowings at the FHLB, as the Company took advantage of market-driven opportunities by investing in lower cost borrowings, offset by a decline in interest expense on senior notes as a result of the Company's purchase and retirement of a portion of those notes.

Provision for Loan Losses. The Company established provisions for loan losses of $1.9 million and $1.15 million during the six months and three months ended June 30, 2001, respectively. Charge-offs (net of recoveries) during the same periods were $2.6 million and $1.5 million, respectively. The Company's basis for provisions was a function of management's credit risk monitoring process that considers several factors, including among other things, current economic conditions affecting the Company's customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, change in collateral values, and detailed review of specific large loan relationships.

Noninterest Income. The components of noninterest income consist of deposit-related income, loan fees and loan service charges, net gains on sale of assets and other income. Total noninterest income increased $1.2 million or 13.13% during the six months ended June 30, 2001 as compared to the same period in the prior year as loan fees and service charges driven by the growth in the commercial loan portfolio rose 32.8%. During the three months ended June 30, 2001, total noninterest income increased $839,000 or 17.92% with loan fees and deposit related income growth constituting the majority of the increase between the comparative periods. Deposit related income growth in the three-month comparative period is attributable to the Company's increased marketing efforts in this area.

Noninterest Expense. Total noninterest expense increased $2.4 million or 8.81% during the six months ended June 30, 2001 as compared to the same period in the prior year. Total noninterest expense increased $1.4 million or 10.09% during the three months ended June 30, 2001 as compared to the same period in the prior year. The increases in noninterest expense during both the six and three-month

comparative periods resulted primarily from increases in compensation costs as well as start-up costs related to new marketing initiatives.

ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. It is the objective of the Company to attempt to control risks associated with interest rate movements. In general, management's strategy is to evaluate asset and liability balances within maturity categories to control the Company's exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time.

Management's methods for evaluating interest rate risk include an analysis of the Company's interest rate sensitivity "gap", which is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

AVERAGE BALANCES, NET INTEREST INCOME, YIELDS EARNED AND RATES PAID

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields, (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates, (iii) net interest income, (iv) interest rate spread, and (v) net interest margin. Information is based on average daily balances during the indicated periods (dollars in thousands):

	Three Months Ended June 30,			
	2001			
	Average Balance	Interest	Average Yield/ Cost	Average Balance
Interest-earning assets:				
Loans receivable(1)	$ 1,888,583	$ 38,003	8.05%	$1,777,200
Securities(2)	505,068	9,071	7.18	405,576

Other earning assets(3)	64,799	875	5.40	52,122	
Total interest-earning assets	2,458,450	47,949	7.80%	2,234,898	
Noninterest-earning assets	119,462			92,070	
Total assets	$2,577,912			$2,326,968	
Interest-bearing liabilities:					
Deposits:					
Transaction accounts(4)	$ 520,245	3,800	2.93%	$ 420,888	
Term certificates of deposit	1,118,942	15,661	5.61	1,318,194	
Total deposits	1,639,187	19,461	4.76	1,739,082	
Borrowings:					
FHLB advances	500,027	5,435	4.30	233,875	
Securities sold under agreements to repurchase and other borrowings	52,601	530	4.04	13,970	
Senior notes	41,036	1,212	11.81	43,160	
Total interest-bearing liabilities	2,232,851	26,638	4.79%	2,030,087	
Noninterest-bearing liabilities	178,386			163,251	
Total liabilities	2,411,237			2,193,338	
Stockholders' equity	166,675			133,630	
Total liabilities and stockholders' equity	$2,577,912			$2,326,968	
Net interest-earning assets	$ 225,599			$ 204,811	
Net interest income/interest rate spread		$ 21,311	3.01%		$
Net interest margin			3.47%		
Ratio of average interest-earning assets to average interest-bearing liabilities			110.10%		

	Six Months Ended June 30,				
	2001				
	Average Balance	Interest	Average Yield/ Cost	Average Balance	In
Interest-earning assets:					
Loans receivable(1)	$1,880,695	$ 77,314	8.28%	$1,749,066	$
Securities(2)	468,222	17,236	7.36	456,047	
Other earning assets(3)	80,724	2,290	5.67	49,135	
Total interest-earning assets	2,429,641	96,840	8.01%	2,254,248	
Noninterest-earning assets	118,372			94,458	
Total assets	$2,548,013			$2,348,706	

Interest-bearing liabilities:					
Deposits:					
Transaction accounts(4)	$ 516,678	8,250	3.22%	$ 445,781	
Term certificates of deposit	1,169,970	33,628	5.80	1,288,059	
Total deposits	1,686,648	41,878	5.01	1,733,840	
Borrowings:					
FHLB advances	436,903	9,565	4.35	259,144	
Securities sold under agreements to repurchase and other borrowings	45,507	1,016	4.50	7,090	
Senior notes	41,049	2,425	11.81	56,884	
Total interest-bearing liabilities	2,210,107	54,884	5.01%	2,056,958	
Noninterest-bearing liabilities	174,953			160,611	
Total liabilities	2,385,060			2,217,569	
Stockholders' equity	162,953			131,137	
Total liabilities and stockholders' equity	$2,548,013			$2,348,706	
Net interest-earning assets	$ 219,534			$ 197,290	
Net interest income/interest rate spread		$ 41,956	3.00%		$
Net interest margin			3.45%		
Ratio of average interest-earning assets to average interest-bearing liabilities			109.93%		

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(1) The average balance of loans receivable includes nonperforming loans, interest on which is recognized on a cash basis, and excludes the allowance for loan losses which is included in noninterest-earning assets.

(2) Includes all securities, including the market valuation accounts.

(3) Includes cash and due from banks, interest-bearing deposits, and Federal Home Loan Bank of Topeka and Federal Reserve Bank stock.

(4) Includes passbook, NOW and money market accounts.

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The following table summarizes the anticipated maturities or repricing of the Company's interest-earning assets and interest-bearing liabilities as of June 30, 2001, based on the information and assumptions set forth in the notes below (dollars in thousands):

	Within Three Months	Three to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years

Interest-earning assets(1):				
Loans receivable(2)	$ 757,612	263,683	488,117	228,771
Securities(3)	72,627	87,613	137,674	140,598
Other interest-earning assets(4)	89,738	3,783	--	--
Total	$ 919,977	355,079	625,791	369,369
Interest-bearing liabilities:				
Deposits(5):				
Money market and NOW accounts	$ 217,743	43,225	79,233	47,808
Passbook accounts	3,675	11,026	20,401	12,402
Certificates of deposit	402,896	494,972	177,895	26,116
Borrowings:				
FHLB advances(6)	--	--	--	--
Securities sold under agreements to repurchase and other borrowings	66,207	--	--	--
Senior notes	--	--	--	41,010
Total	$ 690,521	549,223	277,529	127,336
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 229,456	(194,144)	348,262	242,033
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 229,456	35,312	383,574	625,607
Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	8.85%	1.36	14.80	24.14

(1) Adjustable-rate loans and securities are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they mature and fixed-rate loans and securities are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments based on, among other things, historical performance.

(2) Balances have been reduced for nonaccrual loans.

(3) Does not include unrealized gain on securities classified as available for sale.

(4) Comprised of cash and due from banks, deposits with other banks, Federal Home Loan Bank and Federal Reserve Bank stock.

(5) Adjusted to take into account assumed annual decay rates, which were applied against money market, NOW and passbook accounts.

(6) Maturity based on projected call date and/or actual maturity date.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan originations, to meet withdrawals

from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing effort. Liquidity demand caused by net reductions in deposits are usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB, securities sold under agreements to repurchase and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally placed in short-term investments such as overnight money funds and short-term government agency securities. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At June 30, 2001, the Company had unutilized borrowing capacity with a credit limit subject to the maximum amount of credit available under the FHLB System Credit Policy.

At June 30, 2001, the Bank had approximately $284.5 million of outstanding loan commitments (including unused lines of credit) for home equity, commercial real estate and commercial business loans. Certificates of deposit which are scheduled to mature within one year totaled $897.9 million at June 30, 2001, and borrowings which are scheduled to mature or reprice within the same period amounted to $66.2 million. The Bank anticipates that sufficient funds will be available to meet its current loan commitments and that, based upon past experience and current pricing policies, it can adjust the rates of certificates of deposit to retain a substantial portion of its maturing certificates and also, to the extent deemed necessary, refinance the maturing borrowings.

On September 8, 1997 and in connection with the Company's recapitalization, the Company issued $80.0 million of senior notes. Since that time, the Company has purchased and retired $39.0 million of those outstanding senior notes. These transactions reduced future interest costs associated with those notes. The remaining $41.0 million of senior notes have an annual debt service requirement of $4.5 million (or $2.25 million for each semi-annual period).

Capital Resources. Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the FRB. The guidelines are commonly known as Risk-Based Capital Guidelines.

On June 30, 2001, the Company exceeded all applicable capital requirements by having a total risk-based capital ratio of 9.15%, a tier I risk-based capital ratio of 7.90% and a leverage ratio of 5.85%.

INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to available for sale securities which are carried at market value), without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" for Quantitative and Qualitative Disclosures about Market Risk.

PART II OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held the Annual Meeting of Stockholders on May 23, 2001. Management solicited proxies for the meeting, and there was no solicitation in opposition to management's nominees as listed in the Proxy Statement. All nominees were re-elected for a three-year term. Votes were cast as follows:

Nominee	For	Withheld
Edward A. Townsend	15,148,697	388,995
Robert A. Kotecki	15,537,692	-
J. David Rosenberg	15,527,692	10,000

The stockholders approved an amendment to the Local Financial Corporation 1998 Stock Option Plan increasing the shares authorized for grant from 1,720,370 shares to 2,100,370 shares. Votes were cast as follows:

For	Against	Abstain
11,007,112	4,857,835	25,295

The stockholders ratified the appointment of KPMG LLP, independent auditors, to audit the Company's financial statements for the year ending December 31, 2001. Votes were cast as follows:

For	Against	Abstain
15,819,801	59,551	10,890

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

There were no Form 8-K's filed during the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOCAL FINANCIAL CORPORATION

Date: August 3, 2001 By /s/ Edward A. Townsend

Edward A. Townsend
Chairman of the Board
Chief Executive Officer

LOCAL FINANCIAL CORPORATION

Date: August 3, 2001 By /s/ Richard L. Park

Richard L. Park
Chief Financial Officer